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C O N F I D E N T I A L CARACAS 001339

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SECSTATE PASS AGRICULTURE ELECTRONICALLY

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TAGS: [EAGR](#) [ECON](#) [ETRD](#) [PGOV](#) [VE](#)  
SUBJECT: COFFEE INDUSTRY EXPECTED TO CONTINUE DECLINE

Classified By: Randall Hager, Agricultural Attachi, for reasons 1.4 (b)  
and (d)

¶1. (C) SUMMARY: Leading private sector representatives state that Venezuela's policy of fixed output prices, ineffective support for farmers, and probable takeover of two leading coffee processors, will reinforce a downward trend in output and result in additional raw coffee imports. As even dark Venezuelan clouds have silver linings, some may benefit; we suspect that those government officials who control trade (imports and prohibited exports), or some part of the industry, will do rather better even while continuing to play the role as defenders of the people. END SUMMARY.

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A MAN, A PLAN, LESS COFFEE  
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¶2. (C) According to Vicente Perez (protect), president of a leading coffee growers organization, the BRV's "Plan Cafe," a multi million Bolivar initiative run by the Ministry of Agriculture to support domestic coffee production, has been a total failure, with much of the money never reaching the small producers as intended. Minister of Agriculture Elias Jaua has strongly supported the initiative to build up local production to ensure that the domestic market for this staple food item is covered. But, according to Perez, even he recognizes that the Plan has not worked. In addition to not getting needed financial assistance to farmers, owners often cannot visit their farms due to the presence of guerrillas from the Frente Bolivariano de Liberacion Nacional (FBLN) in the region, further restricting output.

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WHEN IN DOUBT, ATTACK!  
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3 (C) As has happened in other sectors, failure to achieve the stated production outcome is addressed by assigning blame to the private sector. A case in point is the BRV's intervention in two leading coffee processors, Cafe de Madrid, and Fama de America. Both companies are blamed for internal shortages and are accused of hoarding, price fixing, and illegal exports. Although a government decision on their fate will not be made until early November after a required 90 day period of analysis and appeal, strong statements by President Chavez indicate that a takeover in some form is highly likely.

¶4. (C) In the meantime, raw coffee imports are controlled by government agencies, and beans are allocated to processors according to their whims. Smaller processors seem to be favored, while Cafe Madrid and Fama de America are given enough to keep them operational. According to Roberto Azuaje

(protect), Fama's President, his company is running at about 65-75 percent of capacity, perhaps getting that much to keep sufficient coffee on the shelves, especially in Caracas, as the government understands only the large processors have the ability to provide enough final product to consumers.

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THE END GAME  
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15. (C) According to Perez, there are two factors that might save Fama and Cafe de Madrid from complete government control--their Spanish heritage and their demonstrated ability to manage the farm to market chain. Both companies are owned by Spanish descendants, and thus, Perez commented, might receive some support from the Spanish government. As raw coffee procurement and distribution of the final product are complicated, the BRV may also understand that it is best to leave most of the management and business structure in place, asserting ultimate control perhaps via an appointed general manager and upper management staff. Further complicating this picture, informed sources have told Perez that Venezuela's third-largest coffee processor, Cafe Flor de Patria, was recently acquired by Energy Minister Ramirez.

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